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"Auto-enrolment is not a fair choice for Britain's lower paid"

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BA is the latest in a long line of big companies — including M&S, Tesco, Royal Mail and BMW — closing their final-salary or defined-benefit pension schemes, while smaller companies have long since moved to cheaper, less risky defined-contribution schemes.

However, BA's announcement is important because, as well as choosing 4 per cent of salary as a pension contribution, employees can also choose a straightforward increase in their monthly pay to spend or save.

Pension "auto-enrolment" is generally seen as a success story, with six million more people saving for their retirement, albeit with modest amounts, with a low level of opt-out. It seems to be a good example of Richard Thaler's "nudge theory" in action — he has just won the Nobel prize for his work on "behavioural economics" — encouraging people to make the "right" decision for themselves, without compulsion.

Rather than a "nudge", auto-enrolment is really a "shove". The rules mean that companies cannot "induce" staff to opt out and they are discouraged from offering a higher wage instead of a pension contribution.

But the auto-enrolment choice is not a proper choice. It is the choice between staying in the pension scheme and getting a higher overall salary, including the employer contribution, or opting out and getting a lower salary. BA has made it easy for people to make a proper choice, without skewing the decision.

The only people who can make a proper choice are the highest-paid who have hit their pension tax lifetime allowance. It is standard practice to pay them a cash supplement instead of a pension contribution, a generous 25 per cent or more.

Every employer should be required by law to offer a cash alternative to a pension to all employees, pitched to be cost-neutral for them, not just to highly paid executives.

All governments take it for granted that pension-saving is a "good thing". In truth, the present system of auto-enrolment, and the money spent on pension tax relief, is misguided: higher-earners and the pension and fund management industry do well out of it, but it does precious little for lower-earners.

The lower-paid certainly should be saving to top up their state pension, but does it make sense for them to be saving into a pension? Should they opt out of auto-enrolment and use their monthly pension contribution, including the company contribution, to pay down debt, starting with the highest interest rate, usually expensive credit card debt?

Paying off debt is saving, so at retirement net savings (savings minus debt) will be higher than putting the same amount in a pension.

And tax breaks, the only end-to-end magic in pension-saving, are small for a basic-rate taxpayer versus a higher-rate taxpayer.

A 40 per cent taxpayer gets a much bigger initial tax top-up and then saves 40 per cent on the bigger tax-free lump sum at retirement. For every £100 saved from post-tax income, the tax break is worth £16 for a 40 per cent taxpayer, but only £6 for a 20 per cent taxpayer, even less after paying pensions charges.

The UK should move to a fairer flat-rate tax top-up for all pension savings, fixed at say, 30 per cent, to be neutral for the Treasury. As well as being fairer, it would increase overall pension saving amongst the lower-paid, so more would be better off staying in the company pension.

The mechanics of flat-rate tax top-up, including for defined benefit pensions, and capturing employer contributions, would be straightforward, requiring a tweak to personal tax codes by company payroll.

A cash alternative to pensions and flat-rate tax top-up may not be popular with the vested interests of the pensions industry or higher-earners, but are necessary reforms to help the lower-paid to save.

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